

BRANCH AREA TRANSIT AUTHORITY

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

YEAR ENDED SEPTEMBER 30, 2008

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INDEPENDENT AUDITOR'S REPORT
ON FINANCIAL STATEMENTS

To the Board of Directors
Branch Area Transit Authority
Branch County, Michigan

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We have audited the accompanying basic financial statements of Branch Area Transit Authority (the Authority) as of and for the year ended September 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Branch Area Transit Authority as of September 30, 2008, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Donald L. Paulsen, CPA

Patrick J. Monahan, CPA

Bruce S. A. Gosling, CPA

Michael R. Wilson, CPA

Rick L. Strawser, CPA

Jerrold T. Norman (1941-1982)

Board of Directors
Branch Area Transit Authority

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Branch Area Transit Authority basic financial statements. The accompanying other supplemental information, as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Branch Area Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2008, on our consideration of Branch Area Transit Authority internal control over financial reporting and on our tests of it's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Norman S. Paulson, P.C.

November 12, 2008

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2008

This section of the Authority's Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2008. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- * The assets of the Authority exceeded it's liabilities at September 30, 2008, by \$2,708,020. Of this amount, \$1,997,930 represents net assets which are not invested in capital assets.
- * The Authority's total net assets increased by \$138,638.
- * The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about it's activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

For the year ended September 30, 2008, assets exceeded liabilities by \$2,708,020. Transit is a capital-intensive enterprise, and approximately 25% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2008

Summary of Net Assets

	<u>2008</u>	<u>2007</u>
Assets:		
Current Assets	\$ 2,106,664	\$ 2,040,957
Capital Assets (Net)	<u>710,090</u>	<u>632,871</u>
Total Assets	<u>\$ 2,816,754</u>	<u>\$ 2,673,828</u>
Liabilities:		
Current liabilities	\$ 108,734	\$ 104,446
Net Assets:		
Invested in Capital Assets	710,090	632,871
Unrestricted	<u>1,997,930</u>	<u>1,936,511</u>
Total liabilities and Net Assets	<u>\$ 2,816,754</u>	<u>\$ 2,673,828</u>

The Authority's net assets increased by \$138,638 in 2008. The following is a summary Statement of Revenues, Expenses, and Changes in Net Assets which show how the increase in net assets occurred. Also shown is the change for the year ended September 30, 2007.

Summary Statement of Revenues, Expenses, and Changes in Net Assets

	<u>2008</u>	<u>2007</u>
Operating Revenue	\$ 192,525	\$ 191,188
Operating Expenses	<u>1,506,591</u>	<u>1,386,872</u>
Operating Loss	(1,314,066)	(1,195,684)
Taxes	428,818	405,730
Other Non-Operating Revenue	<u>813,638</u>	<u>759,758</u>
Total Non-Operating Revenue	<u>1,242,456</u>	<u>1,165,488</u>
Net Income (Loss)	(71,610)	(30,196)
Capital Grants	<u>210,248</u>	<u>12,744</u>
Change in Net Assets	<u>\$ 138,638</u>	<u>\$ (17,452)</u>

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2008

The following table shows 2008 revenue compared to 2007:

	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
REVENUES			
Operating			
Special transit fares	\$ 119,862	\$ 124,256	\$ (4,394)
Demand-response (farebox)	49,421	44,304	5,117
Demand-response (tickets)	23,242	22,628	614
Non-Operating			
State Assistance	505,050	475,436	29,614
Federal Assistance	219,029	207,589	11,440
Property taxes	428,818	405,730	23,088
Interest income	70,211	72,220	(2,009)
Advertising	1,015	4,305	(3,290)
Other	18,333	208	18,125
CAPITAL CONTRIBUTIONS			
Federal	\$ 168,198	\$ 10,459	\$ 157,739
State	42,050	2,285	39,765

The federal reimbursement rate was at 16.00% in 2008 and 17.00% in 2007 for eligible expenses. For federal reimbursement computation net eligible expenses increased by \$123,078. The State reimbursement rate decreased from 38.6208% to 36.1508%. For state reimbursement computation net eligible expenses increased by \$123,078.

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

- Operations - Responsible for all on-street services, including operators, dispatchers, and schedulers.
- Maintenance - Responsible for providing vehicles (including fuel, parts, and cleaning) and facilities (upkeep, utilities, and rent).
- Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.
- Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

BRANCH AREA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

YEAR ENDED SEPTEMBER 30, 2008

The following table shows the expenses for 2008 compared to 2007 by department:

<u>DEPARTMENT</u>	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
Operations	\$ 1,001,821	\$ 914,681	\$ 87,140
Maintenance	154,940	145,695	9,245
Administration	218,801	205,154	13,647
Depreciation	<u>131,029</u>	<u>121,342</u>	<u>9,687</u>
Total expenses	<u>\$ 1,506,591</u>	<u>\$ 1,386,872</u>	<u>\$ 119,719</u>

Operations costs increased because wages were up by \$28,612; fuel costs were up by \$43,253, general insurance costs increased by \$11,808 and fringe benefits decreased by \$15,065.

Maintenance costs increased because services increased by \$5,049 and materials increased by \$5,243.

Administration costs increased because wages increased by \$9,347.

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2008 compared to 2007 by object:

<u>OBJECT</u>	<u>2008</u>	<u>2007</u>	<u>Increase/ (Decrease)</u>
Wages and benefits	\$ 1,048,043	\$ 1,030,629	\$ 17,414
Services	50,287	27,901	22,386
Supplies and materials	202,694	145,132	57,562
Utilities	22,934	24,546	(1,612)
Casualty and liability	40,132	28,462	11,670
Miscellaneous	11,472	8,860	2,612
Depreciation	<u>131,029</u>	<u>121,342</u>	<u>9,687</u>
Total	<u>\$ 1,506,591</u>	<u>\$ 1,386,872</u>	<u>\$ 119,719</u>

Wages and benefits increased as a result of higher wage and benefit rates.

Supplies and materials increased as a result of higher fuel costs.

BRANCH AREA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2008

Capital Assets

The Authority's investment in capital assets as of September 30, 2008, amounted to \$710,090 net of accumulated depreciation. Capital assets consist of land, buildings, buses, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2008 included the following:

Maintenance equipment -	\$	-
Revenue vehicles -	\$	210,248
Office equipment -	\$	-

The above capital asset acquisitions were funded by federal and state capital grants.

Economic Factors and Future Outlook

At the time these financial statements were prepared and audited, the Authority was aware of the following items that could significantly affect it's financial health in the future:

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance and capital grants will be funded.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Branch Area Transit Authority, P.O. Box 979, 306 South Clay Street, Coldwater, MI 49036.

BASIC FINANCIAL STATEMENTS

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008

ASSETS

ASSETS

Current Assets

Cash and equivalents	\$ 1,963,694
Receivables:	
Accounts	10,687
Federal government	62,599
State government	23,548
Inventory	13,575
Prepaid expenses	32,561
Capital assets, net	<u>710,090</u>

Total assets 2,816,754

LIABILITIES, ALL CURRENT

Accounts payable	24,435
Accrued salaries and wages	40,462
Due to other governmental units	
Federal government	1,390
State government	<u>42,447</u>

Total current liabilities 108,734

NET ASSETS

Investment in capital assets, net of related debt	710,090
Unrestricted	<u>1,997,930</u>

Total net assets \$ 2,708,020

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2008

OPERATING REVENUES

Special transit fares	\$ 21,955
Demand-response (farebox)	49,421
Demand-response (tickets)	23,242
County Commission on Aging - contract fares	15,000
ADAPT, Inc. - contract fares	<u>82,907</u>

Total operating revenue 192,525

OPERATING EXPENSES

Operations	1,057,149
Maintenance	166,113
General administration	<u>283,329</u>

Total operating expenses 1,506,591

Operating loss (1,314,066)

NON-OPERATING REVENUE

State grants	505,050
Federal grants	219,029
Property taxes	428,818
Interest income	70,211
Maintenance	1,756
Southwest Michigan	
Planning Commission grant	14,500
Gain on disposal of assets	1,770
Advertising	1,015
Donations	<u>307</u>

Total non-operating revenue 1,242,456

Net loss before contributions (71,610)

CAPITAL CONTRIBUTIONS

210,248

Change in net assets 138,638

TOTAL NET ASSETS - BEGINNING OF YEAR 2,569,382

TOTAL NET ASSETS - END OF YEAR \$ 2,708,020

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 192,605
Payments to suppliers	(309,902)
Payments to employees	<u>(1,037,026)</u>
Net cash used in operating activities	(1,154,323)
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Federal and state grants	702,577
Local funding	<u>445,381</u>
Net cash provided by non-capital financing activities	1,147,958
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	70,211
 CASH FLOWS FROM CAPITAL ACTIVITIES	
Purchase of capital assets	(210,248)
Receipts from capital grants	210,248
Proceeds from the sale of capital assets	<u>3,220</u>
Net cash provided by capital activities	<u>3,220</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	67,066
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,896,628</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,963,694</u>

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS - Continued
YEAR ENDED SEPTEMBER 30, 2008

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating loss	\$ (1,314,066)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	131,029
Changes in assets and liabilities	
Accounts receivable	81
Inventory	(2,495)
Prepaid items	8,934
Accounts payable	11,177
Accrued payroll	<u>11,017</u>
Net cash used in operating activities	<u>\$ (1,154,323)</u>

See accompanying notes to financial statements

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - REPORTING ENTITY

Branch Area Transit Authority is a nonprofit corporation organized pursuant to the Public Transportation Authority Act 196 of the State of Michigan. Its member municipalities include the Cities of Coldwater and Bronson, the Villages of Quincy, Sherwood, and Union City, and the County of Branch.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Area Transit Authority conform to generally accepted accounting principles as applicable to nonprofit entities. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed by the Branch Area Transit Authority. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Provisions for depreciation of fixed assets are computed on the straight line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as defined in the R & E Manual and/or as approved by BPT.

The eligible depreciation of \$3,157 includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by the BPT.

Inventory - Inventory consists of consumable materials and supplies and is valued at the lower of cost or market.

Cash Equivalents - All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Operating Revenues - Operating revenues consist of farebox collections as well as ticket sales. They also include contract revenue where the Authority has entered into a contract to be paid for services.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2008

NOTE 3 - CASH AND EQUIVALENTS

The Authority uses financial institutions for cash and deposit purposes, which is in accordance with statutory authority. The accounts maintained are checking, savings, and certificates of deposit. The carrying value is \$1,963,694 and the bank balance is \$1,990,330.

The risk exposure of the cash and equivalents may be summarized as follows:

Insured	\$ 1,500,000
Uninsured	<u>490,330</u>
Total cash and equivalents	<u>\$ 1,990,330</u>

NOTE 4 - PROPERTY AND EQUIPMENT

Depreciation included in the determination of net earnings for the year ended September 30, 2008, amounted to \$131,029. As discussed in note 2, depreciation is computed by the straight line method. The principal categories of property and equipment may be summarized as follows:

	Purchased with Capital Grants	Purchased with Authority Funds	Total
Land	\$ 35,000	\$ -	\$ 35,000
Operating facility	1,063,928	21,264	1,085,192
Vehicles	805,561	13,868	819,429
Maintenance equipment	54,687	12,705	67,392
Office equipment	<u>77,911</u>	<u>7,859</u>	<u>85,770</u>
Total	2,037,087	55,696	2,092,783
Less: Accumulated depreciation	<u>1,339,071</u>	<u>43,622</u>	<u>1,382,693</u>
Undepreciated cost	<u>\$ 698,016</u>	<u>\$ 12,074</u>	<u>\$ 710,090</u>

When state funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the Michigan Department of Transportation.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2008

NOTE 4 - PROPERTY AND EQUIPMENT - Continued

CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 35,000	\$ -	\$ -	\$ 35,000
Capital Assets Being Depreciated				
Operating facility	1,085,192	-	-	1,085,192
Vehicles	681,705	210,248	72,524	819,429
Maintenance equipment	67,392	-	-	67,392
Office equipment	<u>85,770</u>	<u>-</u>	<u>-</u>	<u>85,770</u>
Subtotal	1,920,059	210,248	72,524	2,057,783
Less Accumulated Depreciation for				
Operating facility	612,917	56,350	-	669,267
Vehicles	594,004	64,708	70,524	588,188
Maintenance equipment	53,288	4,064	-	57,352
Office equipment	<u>61,979</u>	<u>5,907</u>	<u>-</u>	<u>67,886</u>
Subtotal	<u>1,322,188</u>	<u>131,029</u>	<u>70,524</u>	<u>1,382,693</u>
Net Capital Assets Being Depreciated	<u>597,871</u>			<u>675,090</u>
Total Capital Assets - Net of Depreciation	<u>\$ 632,871</u>			<u>\$ 710,090</u>

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2008

NOTE 5 - DUE FROM FEDERAL GOVERNMENT

Branch Area Transit Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government is as follows:

For the Year Ended September 30, 2008

Net eligible expenses	\$ 1,256,393
Funding rate	<u>16.00%</u>
Section 5311 revenue	201,023
Funding received	148,535

Due from federal government	52,488
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Branch Area Transit Authority receives funding from the U.S. Department of Transportation for the Job Access and Reverse Commute Program. For the year ended September 30, 2008, costs incurred compared to funding received is as follows:

Eligible costs	\$ 13,750
Maximum funding per contract	13,750
Funding received	<u>3,639</u>
Due from federal government	<u>10,111</u>
Total due from federal government	<u>\$ 62,599</u>

NOTE 6 - DUE TO FEDERAL GOVERNMENT

Branch Area Transit Authority receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due to the federal government is as follows:

For the Year Ended September 30, 2007

Net eligible expenses	\$ 1,133,315
Funding rate	<u>17.00%</u>
Section 5311 revenue	192,664
Funding received	<u>193,400</u>

Due to federal government	736
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BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2008

NOTE 6 - DUE TO FEDERAL GOVERNMENT - Continued

For the year ended September 30, 2006

Net eligible expenses	\$ 1,088,887	
Funding rate	<u>17.00%</u>	
Section 5311 revenue	185,111	
Funding received	<u>185,765</u>	
Due to federal government		<u>654</u>
Total due to federal government		<u>\$ 1,390</u>

NOTE 7 - DUE FROM STATE GOVERNMENT

Branch Area Transit Authority receives funding from the State of Michigan for Specialized Services. The computation of the amount due from the State of Michigan under specialized services contract is as follows:

For the Year Ended September 30, 2008

Eligible costs	\$ 26,353	
Funding received	<u>17,615</u>	
Due from state government		8,738

Branch Area Transit Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under the Operating Assistance Agreement is as follows:

For the Year Ended September 30, 2005

Fiscal year 2005 Final Audit Formula	\$ 496
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For the Year Ended September 30, 2006

Eligible costs	\$ 1,093,177	
Funding rate	<u>39.2545%</u>	
Funding earned	429,121	
Funding received	443,135	
Funding paid back	<u>18,217</u>	
Due from state government		4,203

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2008

NOTE 7 - DUE FROM STATE GOVERNMENT - Continued

Branch Area Transit Authority receives funding from the State of Michigan for the Job Access and Reverse Commute Program. For the year ended September 30, 2008, costs incurred compared to funding received is as follows:

Eligible costs	\$	13,750	
Maximum funding per contract		13,750	
Funding received		<u>3,639</u>	
Due from state government			<u>10,111</u>
Total due from state government			<u>\$ 23,548</u>

NOTE 8 - DUE TO STATE GOVERNMENT

Branch Area Transit Authority receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due to the State of Michigan under the Operating Assistance Agreement is as follows:

For the Year Ended September 30, 2008

Eligible costs	\$	1,260,683	
Funding rate		<u>36.1508%</u>	
Funding earned		455,747	
Funding received		<u>461,846</u>	
Due to state government			6,099

For the Year Ended September 30, 2007

Eligible costs	\$	1,137,605	
Funding rate		<u>38.6208%</u>	
Funding earned		439,352	
Funding received		480,914	
Funding paid back		<u>(5,214)</u>	
Due to state government			<u>36,348</u>
Total due to state government			<u>\$ 42,447</u>

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2008

NOTE 9 - PROPERTY TAX REVENUE

Property taxes are levied each December 1, by the governmental entities within Branch County. The governmental units bill and collect property taxes, then remit them to the Authority. Property tax revenues are recognized when levied to the extent they are deemed to be collectable. The governmental units collect taxes until March 1, at which time real property taxes are turned over to the county for reimbursement from their revolving tax fund. The governmental units continue to collect delinquent personal property taxes.

The taxable value of all real and personal property on which Authority tax levies were based for the year ended September 30, 2008, was \$1,248,291,632 and the millage rate was .3436 mills. Property tax revenue is recorded under local funding.

NOTE 10- CAPITAL CONTRIBUTIONS

The following represents the capital contributions earned by Branch Area Transit Authority under federal and state funding:

<u>Contract</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
02-0021/Z22	\$ 120,691	\$ 30,173	\$ 150,864
02-0021/Z23	45,456	11,364	56,820
2007-0179/Z7	<u>2,051</u>	<u>513</u>	<u>2,564</u>
Total	<u>\$ 168,198</u>	<u>\$ 42,050</u>	<u>\$ 210,248</u>

NOTE 11- RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Authority carries commercial insurance to cover these risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this coverage in any of the past fiscal years.

The Branch Area Transit Authority participates in a risk pool. The transit agency is responsible for the first \$25,000 per claim. This first comes out of the Authority's deposit with the risk pool. They will be billed for anything above the amount in the deposit to equal \$25,000 total. Any claims above \$25,000 goes into the risk shared pool and is shared by all members. The limits of coverage are \$2,000,000 by the Michigan Transit Pool. There is also reinsurance through Transit Re, Ltd. for \$3,000,000 which gives a total of \$5,000,000 per claim.

BRANCH AREA TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - Continued
YEAR ENDED SEPTEMBER 30, 2008

NOTE 12- CONTINGENCIES

Amounts received or receivable under grant programs are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the Authority. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

NOTE 13- COST ALLOCATION PLANS

Branch Area Transit Authority has seven cost allocation plans where the methodology has been approved by the BPT. These cost allocation plans are for gasoline purchase, charter, specialized services, maintenance services, regional transportation cost allocation, Project Zero cost allocation, and Transportation to Work programs. The allocation plans were adhered to in the preparation of the Financial Statements.

NOTE 14- EXPLANATION OF INELIGIBLE EXPENSES PER THE BPT R&E MANUAL

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. Branch Area Transit Authority did not incur expenses associated with advertising revenue and, therefore, no expenses are subtracted out as ineligible on the Statement of Net Eligible Expenses. Branch Area Transit Authority did incur ineligible expenses associated with maintenance revenue. These expenses are subtracted as ineligible.

NOTE 15- RETIREMENT PLAN

Effective October 1, 1993, the Authority established an IRC Section 457 Deferred Compensation Plan. This plan was updated effective January 1, 2002. This is a defined contribution plan. All employees are eligible to participate. The Authority will match the employee contributions up to a maximum of \$1,500. For the period ended September 30, 2008, pension expense was \$22,471.

NOTE 16- EXPENSES PAID WITH CAPITAL GRANTS

For the year ended September 30, 2008, all capital grant money from the State and Federal government was spent on capital projects. None of the money was used for expenses.

OTHER SUPPLEMENTAL INFORMATION

BRANCH AREA TRANSIT AUTHORITY
STATEMENT OF OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2008

	<u>Normal Services</u>	<u>Specialized Services</u>	<u>Job Access and Reverse Commute Program</u>	<u>Totals</u>
Special transit fares	\$ 17,725	\$ 4,230	\$ -	\$ 21,955
Demand - response (farebox)	44,932	4,489	-	49,421
Demand - response (tickets)	23,242	-	-	23,242
County Commission on Aging - contract fares	13,189	1,811	-	15,000
ADAPT, Inc. - contract fares	<u>82,907</u>	<u>-</u>	<u>-</u>	<u>82,907</u>
 Total operating revenues	 <u>\$ 181,995</u>	 <u>\$ 10,530</u>	 <u>\$ -</u>	 <u>\$ 192,525</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2008

	Normal <u>Services</u>	Specialized <u>Services</u>	Job Access and Reverse Commute <u>Program</u>	<u>Total</u>
State of Michigan Operating Grants				
Local bus operating assistance	\$ 455,747	\$ -	\$ -	\$ 455,747
Local bus operating assistance- previous years	9,200	-	-	9,200
Specialized services - operating assistance	-	26,353	-	26,353
Job Access and Reverse Commute Program	<u>-</u>	<u>-</u>	<u>13,750</u>	<u>13,750</u>
Total State of Michigan operating grants	464,947	26,353	13,750	505,050
Federal Operating Grants				
U.S. DOT operating grant - section 5311, RTAP	4,751	-	-	4,751
U.S. DOT operating grant - section 5311, contract 2007-0179/Z5	201,023	-	-	201,023
U.S. DOT operating grant - Section 5311 - prior years	(495)	-	-	(495)
U.S. DOT Job Access and Reverse Commute Program - Section 2007-0179/Z6	<u>-</u>	<u>-</u>	<u>13,750</u>	<u>13,750</u>
Total Federal operating grants	205,279	-	13,750	219,029
Property taxes	428,818	-	-	428,818
Interest income	70,211	-	-	70,211
Maintenance	1,756	-	-	1,756
Southwest Michigan Planning Commission grant	14,500	-	-	14,500
Gain on disposal of assets	1,770	-	-	1,770
Advertising	1,015	-	-	1,015
Donations	<u>291</u>	<u>16</u>	<u>-</u>	<u>307</u>
Total nonoperating revenues	<u>\$1,188,587</u>	<u>\$ 26,369</u>	<u>\$ 27,500</u>	<u>\$1,242,456</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2008

	Normal Services	Specialized Services	Job Access and Reverse Commute Program	Total
Labor				
Operator's salaries and wages	\$ 343,885	\$ 24,332	\$ 7,900	\$ 376,117
Other salaries and wages	174,646	10,582	3,469	188,697
Dispatcher's salaries and wages	93,785	5,682	1,863	101,330
Fringe benefits				
Other fringe benefits	329,246	22,675	7,507	359,428
Pensions	20,798	1,260	413	22,471
Services				
Audit costs	4,290	-	-	4,290
Advertising/promotion media	13,452	815	267	14,534
Other services	29,121	1,764	578	31,463
Materials and supplies consumed				
Fuel and lubricants	143,462	8,692	2,849	155,003
Tires and tubes	2,803	170	56	3,029
Other materials and supplies	41,337	2,504	821	44,662
Utilities				
Other	17,622	1,068	350	19,040
Telephone	3,606	216	72	3,894
Casualty and liability costs				
Premiums for public liability and property damage insurance	32,037	1,941	636	34,614
Other insurance	5,108	309	101	5,518
Taxes				
Taxes/licenses	70	4	1	75
Miscellaneous expenses				
Travel, meetings, and training	5,826	-	-	5,826
Dues and subscriptions	806	49	10	865
Other miscellaneous expenses	1,854	112	37	2,003
Leases and rentals	2,501	152	50	2,703
Depreciation	<u>128,924</u>	<u>1,585</u>	<u>520</u>	<u>131,029</u>
Total operating expenses	<u>\$1,395,179</u>	<u>\$ 83,912</u>	<u>\$ 27,500</u>	<u>\$1,506,591</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF OPERATING EXPENSES BY CATEGORY
YEAR ENDED SEPTEMBER 30, 2008

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Labor				
Operator's salaries and wages	\$ 376,117	\$ -	\$ -	\$ 376,117
Other salaries and wages	-	71,925	116,772	188,697
Dispatcher's salaries and wages	101,330	-	-	101,330
Fringe benefits				
Other fringe benefits	245,547	53,513	60,368	359,428
Pensions	18,271	1,950	2,250	22,471
Services				
Audit costs	-	-	4,290	4,290
Advertising/promotion media	-	-	14,534	14,534
Other services	14,000	13,880	3,583	31,463
Materials and supplies consumed				
Fuel and lubricants	154,393	-	610	155,003
Tires and tubes	3,029	-	-	3,029
Other materials and supplies	26,491	12,044	6,127	44,662
Utilities				
Other	19,040	-	-	19,040
Telephone	3,894	-	-	3,894
Casualty and liability costs				
Premiums for public liability and property damage insurance	34,614	-	-	34,614
Other insurance	-	-	5,518	5,518
Taxes				
Taxes/licenses	75	-	-	75
Miscellaneous expenses				
Travel, meetings and training	1,701	687	3,438	5,826
Dues and subscriptions	-	-	865	865
Other miscellaneous expenses	1,519	152	332	2,003
Leases and rentals	1,800	789	114	2,703
Depreciation	<u>55,328</u>	<u>11,173</u>	<u>64,528</u>	<u>131,029</u>
Total operating expenses	1,057,149	166,113	283,329	1,506,591
Ineligible Expenses:				
Ineligible RTAP	1,701	687	2,363	4,751
Ineligible Depreciation	53,608	11,130	63,134	127,872
Ineligible Maintenance expense	-	1,756	-	1,756
Ineligible Miscellaneous expense	<u>-</u>	<u>-</u>	<u>117</u>	<u>117</u>
Total ineligible expenses	<u>55,309</u>	<u>13,573</u>	<u>65,614</u>	<u>134,496</u>
Total eligible expenses	<u>\$1,001,840</u>	<u>\$ 152,540</u>	<u>\$ 217,715</u>	<u>\$1,372,095</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2008

	<u>RTAP</u>	<u>Specialized Services</u>	<u>Job Access and Reverse Commute Program</u>	<u>Normal Services</u>	<u>Total</u>
Labor	\$ -	\$ 40,596	\$ 13,232	\$ 612,316	\$ 666,144
Fringe benefits	-	23,935	7,920	350,044	381,899
Services	-	2,579	845	46,863	50,287
Materials and supplies	-	11,366	3,726	187,602	202,694
Utilities	-	1,284	422	21,228	22,934
Casualty and liability costs	-	2,250	737	37,145	40,132
Taxes	-	4	1	70	75
Miscellaneous	4,751	161	47	3,735	8,694
Leases and rentals	-	152	50	2,501	2,703
Depreciation	<u>-</u>	<u>1,585</u>	<u>520</u>	<u>128,924</u>	<u>131,029</u>
Total	4,751	83,912	27,500	1,390,428	1,506,591
Less: Ineligible expenses	<u>4,751</u>	<u>-</u>	<u>-</u>	<u>129,745</u>	<u>134,496</u>
Total eligible expenses	<u>\$ -</u>	<u>\$ 83,912</u>	<u>\$ 27,500</u>	<u>\$ 1,260,683</u>	<u>\$ 1,372,095</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF NET ELIGIBLE EXPENSES
YEAR ENDED SEPTEMBER 30, 2008

	Federal Section 5311 <u>Revenue</u>	State Operating <u>Assistance</u>
OPERATING EXPENSES		
Labor	\$ 666,144	\$ 666,144
Fringe benefits	381,899	381,899
Services	50,287	50,287
Materials and supplies	202,694	202,694
Utilities	22,934	22,934
Casualty and liability costs	40,132	40,132
Taxes	75	75
Miscellaneous	8,694	8,694
Leases and rentals	2,703	2,703
Depreciation	<u>131,029</u>	<u>131,029</u>
Total operating expenses	1,506,591	1,506,591
LESS INELIGIBLE EXPENSES		
CPA audit	4,290	-
RTAP grant	4,751	4,751
Maintenance	1,756	1,756
Miscellaneous	117	117
Depreciation	127,872	127,872
Specialized services	83,912	83,912
Job Access and Reverse Commute Program	<u>27,500</u>	<u>27,500</u>
Total ineligible expenses	<u>250,198</u>	<u>245,908</u>
Net eligible expenses	<u>\$ 1,256,393</u>	<u>\$1,260,683</u>
Federal Section 5311 revenue (16.0%)	<u>\$ 201,023</u>	
State Operating Assistance		
A. Reimbursement (36.1508% x \$1,260,683)		<u>\$ 455,747</u>
B. Statutory cap (60% x \$1,260,683)		<u>\$ 756,410</u>
C. Must receive as a minimum 1997 floor		<u>\$ 300,106</u>

BRANCH AREA TRANSIT AUTHORITY

EXPENDITURES OF FEDERAL AWARDS AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2008

<u>Federal and State Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant No/ Authorization Number</u>	<u>Program Award Amount</u>
<u>U.S. Department of Transportation</u>			
Passed Through Michigan Department of Transportation:			
Federal Transit Capital Grants	20.500		
Capital Grant - Sec. 5309 (80/20)		02-0021/Z22	\$ 152,225
Capital Grant - Sec. 5309 (80/20)		02-0021/Z23	272,040
Capital Grant - Sec. 5309 (80/20)		07-0179/Z7	2,564
Operating Assistance - Sec. 5311	20.509	07-0179/Z5	201,023
Rural Transit Assistance Program (RTAP)		N/A	4,751
Job Access and Reverse Commute Program (50/50)	20.516	07/0179/Z6	27,500
<u>Michigan Department of Transportation</u>			
Operating Assistance - Act 51	N/A	N/A	455,747
Specialized Services	N/A	07-0179/Z4	26,353

<u>Current Years Expenditures</u>				<u>Prior Years Expenditures</u>	<u>Award Amount Remaining</u>
<u>Total</u>	<u>Federal</u>	<u>State</u>	<u>Local</u>		
\$ 150,864	\$ 120,691	\$ 30,173	\$ -	\$ -	\$ 1,361
56,820	45,456	11,364	-	-	215,220
2,564	2,051	513	-	-	-
201,023	201,023	-	-	-	-
4,751	4,751	-	-	-	-
27,500	13,750	13,750	-	-	-
455,747	-	455,747	-	-	-
26,353	-	26,353	-	-	-
<u>\$ 925,622</u>	<u>\$ 387,722</u>	<u>\$ 537,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,581</u>

BRANCH AREA TRANSIT AUTHORITY

STATEMENT OF MILEAGE AND PASSENGER DATA
YEAR ENDED SEPTEMBER 30, 2008
(UNAUDITED)

	Public Transportation <u>Mileage</u>	Public Transportation <u>Passengers</u>	Public Transportation <u>Vehicle Hours</u>
NORMAL SERVICES			
<u>Demand-Response</u>			
First quarter	75,519	24,696	5,013
Second quarter	79,629	26,673	5,343
Third quarter	79,919	25,258	5,205
Fourth quarter	<u>76,995</u>	<u>22,119</u>	<u>4,848</u>
Total normal services	<u>312,062</u>	<u>98,746</u>	<u>20,409</u>
SPECIALIZED SERVICES			
<u>Demand-Response</u>			
First quarter	4,044	1,660	347
Second quarter	3,805	1,626	316
Third quarter	4,231	1,559	353
Fourth quarter	<u>4,211</u>	<u>1,630</u>	<u>348</u>
Total specialized services	<u>16,291</u>	<u>6,475</u>	<u>1,364</u>
JOB ACCESS AND REVERSE COMMUTE PROGRAM			
<u>Demand-Response</u>			
First quarter	3,100	250	371
Second quarter	41	1	6
Third quarter	2,973	133	321
Fourth quarter	<u>2,270</u>	<u>80</u>	<u>238</u>
Total job access and reverse commute program	<u>8,384</u>	<u>464</u>	<u>936</u>
TOTAL OPERATION			
<u>Demand-Response</u>			
First quarter	82,663	26,606	5,731
Second quarter	83,475	28,300	5,665
Third quarter	87,123	26,950	5,879
Fourth quarter	<u>83,476</u>	<u>23,829</u>	<u>5,434</u>
Total operation	<u>336,737</u>	<u>105,685</u>	<u>22,709</u>

NOTE - The methodology used for compiling mileage, passenger data and vehicle hours has been reviewed and found to be an adequate and reliable method for recording vehicle mileage, passenger data and vehicle hours.



REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Branch Area Transit Authority

We have audited the basic financial statements of Branch Area Transit Authority as of and for the year ended September 30, 2008, and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

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Rick L. Strawser, CPA
Jerrold T. Norman (1941-1982)

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due primarily to the related negative impact on cash funds available to the Authority, the hiring of accounting personnel capable of writing the Authority's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

The Authority's response to the findings identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

Finding 2007-2: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to decreased cash flows of the Authority, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Authority's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Board of Directors assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

The Authority's response to the findings identified in our audit is described above. We did not audit the Authority's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Finding 2007-1 and Finding 2007-2 to be a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, others within the organization, the Board of Directors and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

November 12, 2008

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REQUIRED COMMUNICATION TO THE BRANCH AREA TRANSIT AUTHORITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

November 12, 2008

To the Board of Directors
Branch Area Transit Authority

We have audited the basic financial statements of the Branch Area Transit Authority for the year ended September 30, 2008, and have issued our report thereon dated November 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated August 20, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Branch Area Transit Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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Jerrold T. Norman (1941-1982)

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, if any.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the Branch Area Transit Authority for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

The relatively small number of people involved in the accounting functions of the Authority makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board of Directors must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Authority has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process.

Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot, by definition, be considered a part of the government's *internal* controls. This condition was caused by the Authority's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of management, Board of Directors, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Norman S. Paulsen, P.C.

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